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Research Bulletin

Business Leaders' Views On Protectionism in Western Europe

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Ninety companies responded to a Conference Board inquiry (questionnaires and interviews) that asked about their views and experience with protectionism. With the exception of a few responses from the Commonwealth countries of Australia and New Zealand, all the companies are based in European countries affiliated with the European Economic Community (EEC) or the European Free Trade Association (EFTA). Their individual involvements in foreign trade range from moderate to heavy.

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Protectionism: The European Perspective

FREE TRADE, like other principles stated in abstract terms, has become more an ideal than a policy. Everyone believes in free trade until trade balances, corporate profits, jobs, currency values, or other economic indicators signal a problem that may be the consequence of international competition. In recent years, many circumstances have united to foster some degree of protectionism in many parts of the world, including Europe.

In this context, The Conference Board believes it valuable to report a survey of European experiences and an overview of the difference between theory and reality in international trade policy.

Company Experience and Reflections

THE ECONOMIC WORLD's protectionist stance will get worse before it gets better. At least that is the view of most executives who responded to a recent Conference Board survey. A majority of them put the onus on other countries, which they expect to move toward heightened protectionist measures. In contrast, about half see their own countries standing pat, while two-fifths expect increased import barriers in their own countries. (See Chart 1).

This outlook for the world reflects a decided shift in the respondents' attitudes toward protectionism. All but three participants identify their industry's stance historically as in favor of free trade. But one in five indicates a switch toward more protectionist views—occasioned by developments of the past few years.

To some extent, this swing is attributed to experience. One in four claims to have gained some advantage from protective measures against imports. Specifics mentioned include better pricing, opportunities to restructure their operations and enlarge their work forces, and greater willingness to increase capital expenditures.

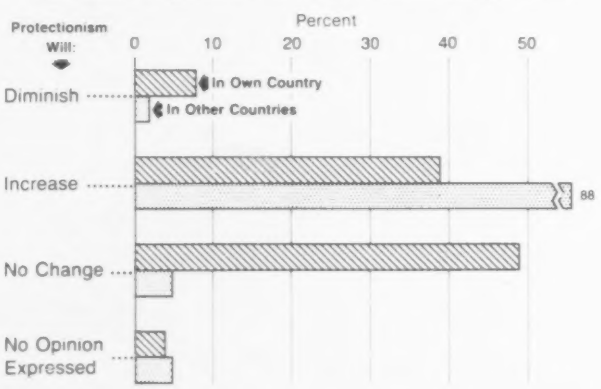
However, while citing such individual company benefits, the large majority acknowledge the potential for harm to general economic—and social—progress. And it was the adverse effects on the development of their respective domestic economies that the participants most often pointed to. Asked to rank serious domestic disadvantages of protectionism, the largest number responded with phrases like "delays economic advancement" or "impedes our economic growth." Frequently the phrase was "inefficient allocation of resources." Some were a bit more specific, pointing out that "it dampens the competitive drive," or "it supports artificially high capacities." A few found the evasion of corporate responsibility—shifting the burden to government—a large negative. The effect on the individual, as a consumer paying higher prices and/or a taxpayer subsidizing inefficiency, struck others.

To some, the general economic consequences—inflation or recession—were major hazards of protectionism. Beyond the domestic consequences, about one-quarter saw stagnation of world trade and the worsening of international relations as major adverse responses to protectionism.

Recognizing hazards and adverse effects, virtually all the respondents believe there are *some* circumstances under

Chart 1

Business Expections of Near-Term Developments



which protective measures are justified. The majority would put no time limit on the duration of some protective measures; others view barriers to imports as stopgaps.

Circumstance Justifying Protectionism	*Number of Mentions*[1]	*Time Period 1 to 5 Years*	*Indefinitely; as Required*	*No Time Given*
Countering or retaliating against foreign protectionism	85	16	62	7
Safeguarding basic defense industries	65	4	55	6
Protecting an infant industry	41	19	20	2
Adjusting to major technological change	40	22	18	—
Avoiding major unemployment	39	20	17	2
Preventing dumping	20	—	10	10
Countering exports from countries with low labor costs or low taxes	2	—	2	—
Others: protecting waning industries; buttressing past, inefficient management; protecting products associated with the nation	12	6	6	0

[1]90 responding companies

Going beyond generality to specific protectionist methods, respondents report that their companies have definite opinions on the measures they would like to see used more—or less—against imports (Table 1). Most would like to see less use of virtually all measures—with the exception of voluntary restrictions, which is the only measure that a majority of company respondents want to see used more. They are particularly opposed to direct trade by government, and there is almost the same degree of unanimity in the desire for less use of government subsidies, quotas and burdensome administrative procedures. The relative unattractiveness of various measures is suggested by the proportions of those wanting more or less use. On that basis, voluntarism is most often acceptable; government involvement in trade is most often rejected. The feelings against burdensome customs procedures, government subsidies and quantitative restrictions (including quotas) are not as strong. Tariffs are evidently not as bothersome as quotas.

Evidently, these companies' own experiences with protectionist measures of countries to which they export weighed heavily in their assessments. Asked which instruments, when used by other countries, have had the greatest effect on their companies, tariffs, custom procedures and government subsidies are mentioned most frequently. Roughly one-third have been adversely affected by quotas, the imposition of standards, and what some regard as pressures of retaliation by foreign governments.

The details of current protectionist practices in West Europe are shown on pages 6-12. The respondents' experiences with respect to specific products are shown in the accompanying box.

That the cooperators resent other countries' protectionism is further indicated by the fact that almost three in four believe that those countries are not justified in imposing such protectionist measures. The other respondents countenance protectionism if it is applied for the same reasons that would justify it in their own countries.

Table 1: Preference Among Protective Measures

Measure	*Direction of Preferences More (percent)*[1]	*Less (percent)*[1]	*Percent of Companies Affected*
Voluntary restrictions	55	40	16
Common action by EEC, if it is concerned	35	50	30
Minimum import price	30	60	20
Standards	30	60	34
Cultural ties (invisible ties, emotional preference for national goods, closed purchasing policies)	20	68	48
Tariffs	18	65	54
Quantitive restrictions (quotas, proportional restrictions)	15	80	33
Subsidies (direct, indirect, credit terms)	10	80	19
Customs and administrative entry procedures	8	80	50
Pressure by individual governments (for example, threats of reprisal)	8	70	32
"Buy national" campaign	3	n.a.	n.a.
Government involvement in trade through its own agencies	2	85	n.a.

[1]Multiple responses; percentages do not add to 100.

Products Affected by Protectionist Measures in Importing Countries

Products Affected \ Countries Introducing Measures	EEC					Other European		Non-European Countries					
	In general	France	West Germany	Greece	United Kingdom	Spain	Sweden	United States	Japan	Canada	Australia	New Zealand	Most Countries
Automobiles	X					X			X		X		
Chemicals		X				X		X					
Control equipment			X										
Electronics		X											
Pharmaceuticals		X		X				X					X
Wood pulp	X												
Petrochemicals	X							X					
Metals	X							X					
Trucks		X											
High technology	X												
Cereals	X							X	X				
Oils and fats	X												
Wire and wire products						X							
Special steels		X				X		X	X			X	
Agrochemicals	X							X					X
Tires								X			X		
Textiles									X		X		
Horticultural products									X				
Tobacco products											X		
Fertilizers													X
EDP products		X							X				
Office instruments													
Machine tools		X											X
Telecommunications		X	X						X				
Flat glass								X					
Windshields			X										
Medical instruments		X					X						
Elevators		X			X	X							
Woolen carpets													
Food									X		X		
Shipbuilding	X								X				
Dyestuffs								X					

Countering Protectionism

Most of the responding executives see little possibility of countering protectionism at the company level. Among the minority that do cite company action, becoming more competitive is the most frequently mentioned recourse. Several suggest cross-border agreements, "quotas" or "mutual understandings" between representatives of various industry groups.

For the most part, respondents see government action as the only source of effective measures. As the tabulation below shows, the machinery of GATT (General Agreement on Tariffs and Trade) gets the heaviest vote of confidence, although others would rely on intergovernmental cooperation. If cooperation fails, some form of retaliation by their own governments would be considered:

Measures to Counter Protectionism	*Percent of Respondents Mentioning*[1]
GATT machinery	59
Common measures by the EEC or other supranational organizations	38
Own government's policies to improve economic performance	37
Appeals by government to trading-partner governments	34
Company action, individual or association	30
Retaliation by respondent's government	19
Government subsidies	7
No action should be taken	6

[1]Multiple Responses

Table 2: Free Trade Desires and Expectations of Respondents

Desired Free-Trade Area	Percent of Responses	Expectation: Possible Percent	Expectation: Never Percent
Limited to EEC	0%	12%	5%
Limited to EFTA	0	8	5
Include EEC and EFTA	0	15	5
Include all OECD Countries	50	42	22
Apply to the whole world	23	6	33
Except centrally planned economies	6	—	—
Except OPEC countries and other exceptions	6	—	—
No response	15	17[a]	30[a]
	100%	100%	100%

[a]These are round numbers; not counted responses.

An appreciable number of company spokesmen (44 percent) see domestic policy changes as the most effective action their governments can take; that is, actions and policies designed to improve prospects for internal economic growth. Tax reductions, support of technological development, less red tape, and the courage to resist industry demands for protection are among the specifics mentioned. However, a few would opt for subsidies to affected industries; and a few others would welcome a more laissez-faire stance. Indeed, choosing among regions or country groupings that might comprise a free-trade network, none would limit his hopes to the EEC or the EFTA, although half believe that the OECD countries would comprise a desirable area of free trade, although one in eight would make some exclusions. (See Table 2.)

Is such a free-trade network—whether narrow or broad—possible? Almost two-thirds of the respondents say "never" or apparently considered the question too naive to answer. The respondents offer a dim prognosis, even for the OECD countries.

Prospects

Not only do the respondents anticipate a strengthening of protectionist postures in the near future, but very few profess any serious expectation that their hopes for more free trade will ever come into being even in limited regions, let alone worldwide.

Protectionism—In the West European Context

THE EXTENT OF protected, or "managed trade," is growing steadily. Estimates vary from one quarter to more than half of all world trade. Subject to protectionist measures are the total trade of centrally planned economies; OPEC oil exports; the bulk of trade in agricultural products; trade in some primary products; a significant proportion of trade in steel; large flows of trade in manufactured products, especially automobiles, shipbuilding; consumer electronics, aircraft; shoes and textiles.

Free trade, the advantages of which are catalogued in economic theory, is supported by virtually all developed market-economy countries and most international organizations. GATT, OECD, the EEC, and EFTA are organizational manifestations of dedication to this principle. Nonetheless, there is no question but that constraint of trade is increasing. Under severe pressure, even the governments and businesses most dedicated to free trade cannot avoid moving toward what some euphemistically call "managed trade."

Within the EEC, most attention is given to measures adopted in agriculture (Common Agricultural Policy), textiles, footwear, shipbuilding, aircraft, microelectronics, telecommunications and steel. In addition to the protective measures taken by the EEC as a whole, unilateral protective policies are also adopted by individual member states. These are chiefly directed against Japan—but also affect other member countries.

Current Protectionist Practices in Europe

Trade policy toward other countries is normally decided by national governments. The only exception is the European Community, although member states are reluctant to transfer sovereignty over trade totally to the Community.

The Treaty of Rome, which created the Common Market in 1957, set out common tasks for the EEC. (See box.) However, each member has enough scope to realize its national aims—not only in trying to influence EEC policy, but also in acting independently of it. Every member state can thus influence exports from and imports to its economy by concluding bilateral cooperation agreements with other trading partners and adhering to a minimum common policy.

European Economic Community

As far as protectionism is concerned, the EEC countries apply both common and unilateral approaches.

Common Measures

Protectionism in the European Economic Community is concentrated mainly on agriculture, steel, textiles, footwear, shipbuilding, aircraft manufacture and electronics. It includes both barriers and subsidies.

Economic Activities of the EEC

Among the economic activities given to the EEC by the Treaty of Rome were:

(1) The elimination, as between member states, of customs duties and of quantitative restrictions in regard to the import and export of goods;
(2) The establishment of a common customs tariff and a common commercial policy toward third countries;
(3) The abolition, as between member states, of obstacles to freedom of movement for persons, services and capital;
(4) The establishment of common policies for agriculture and transport;
(5) Ensuring that competition in the Common Market was not distorted;
(6) The association of overseas countries and territories with the Community.

Ninety percent of *agricultural* products (all except potatoes and agricultural alcohol) are protected under the EEC's Common Agricultural Policy (CAP). Subsidies for 1982 were estimated at $13 billion. CAP guarantees farmers a preset price and intervenes to buy surpluses if prices fall below that level. These are sometimes sold—within the Community or to the U.S.S.R.

In practice, then, agriculture is totally shielded from international competition. In order to maintain high prices for farmers, a variable system of levies at the EEC's borders aligns the price of imported food with domestic prices that are set each year. High prices are maintained despite a high agricultural surplus, especially of dairy products, sugar, beef, butter and some others. The Commission makes day-to-day operational decisions on import levies and other agricultural operations.

EEC policy in the *steel* industry is also highly protectionist, with all iron and steel trade effectively regulated. This industry suffers from both cyclical and structural problems. There is a persistent excess capacity and overmanning which, combined with an outmoded productive structure, makes it impossible for most EEC firms to compete under normal conditions on the world markets. This protectionist policy relies to a large extent on price loans, subsidies and import limitations. Steel is subsidized by loans at preferential rates, government equity participation on terms that are not consistent with commercial considerations, and straightforward cash grants.

Since 1977, with the introduction of the so-called Davignon Plan, various measures have been taken to give greater protection to the industry. The Davignon Plan initially involved voluntary reductions in deliveries by EEC steel firms along with a mixed system of obligatory and recommended prices floors. Steel is protected from low-priced imports through fixed minimum prices (known as basic prices), based on the production costs of Japan.

Self-limitation agreements were also negotiated by the commission in 1978 with Australia, Austria, Finland, Japan, Norway, Spain, Switzerland and Portugal. Only the two last mentioned were not required to observe self-limitation agreements in 1980.

In 1980, the Commission imposed compulsory production limits on the EEC's 350 leading steel firms, and tightened them further in 1981. The Council of Ministers agreed again to reduce "self-limitation" imports from 14 countries to a level that would drop 1983 exports to the EEC 12.5 percent below the 1980 level.

While steel-exporting members of the European Free Trade Association (EFTA) do not have specific quotas, reference is made to "traditional" levels of exports, adjusted in line with the internal steel-market situation in the EEC. Thus, even in the form of "self-limitation," the spirit of the EEC-EFTA free-trade treaties is violated, with quotas on iron alloys from Norway, Sweden and Austria.

The import of *textiles,* which is a relatively inefficient industry, is highly restricted—access to the market is virtually barred. The EEC participates in the Multifiber Arrangement (MFA). The protection of manmade fiber imports has brought conflict, primarily with the United States. British, French and other EEC textile producers are seeking to further curb sales of U.S.-made polyester filament yarn by imposing protective duties. The EEC slapped new duties on U.S. synthetic fiber imports in 1980, when a 17 percent duty was imposed on acrylic fibers. Dumping complaints were lodged in December, 1981, against U.S. manmade fiber companies by the EEC synthetic fibers industry's European Council of Chemical Manufacturers Federations (CEFIC) organization. They concern textured polyester yarn exported to Italy. In May, 1981, an antidumping duty of up to 14.2 percent was levied on imports from the United States of vinyl acetate monomers. All these measures adversely affect imports from the USA.

In order to restrict imports of textile products from Portugal, Greece (prior to Greek membership), Spain and Turkey, while respecting the terms of preferential trade agreements, EEC forced these countries to accept self-limitation by threatening to apply unilaterally the safeguard clause (entitling the importer to apply restrictions in specific circumstances) included in some of these agreements. The EEC has voluntary *export* restraint agreements on cotton products with Spain, Portugal, Turkey, Malta, Cyprus and others.

In 1978, under pressure from the shoe industry, the EEC introduced a system of statistical surveillance for imports of *footwear* from Spain, developing countries, and state trading countries. It has been proposed that a "Multifootwear Arrangement" on imports, similar to the Multifiber Arrangement, should be negotiated.

A system of ceilings for *paper* has been applied since January, 1979, affecting imports from Norway, Sweden, Finland and Austria. The EEC imposed duties of up to 10.9 percent on a range of Swedish paper products that exceeded ceilings for export to the EEC in late 1982.

Free Trade

Economic theory, which is presumably unbiased by vested interests and prejudices of economic agents, generalizes the position of various groups in the society and compares the losses and gains of the society as whole. From this vantage point, most economists have always favored free trade, and have elaborated on its benefits—always stressing the long term.

The major benefits attributed to free trade are gains in consumption and production; economies of scale; innovations; a more competitive economy; and domestic price stability, all of which are viewed as strengthening the whole society. Elaborating briefly:

Consumption gains: Everyone is a consumer, and in this role everyone benefits directly from lower prices when imports are not restricted. Part of this gain represents a transfer from those benefiting from an artificially high price, that is, domestic producers and, if a tariff is involved, the national treasury. The total benefit to consumers, however, will exceed transfer from these groups. Therefore, there is a net gain to the country as a whole.

Production gains: Replacing less efficiently produced output with imports permits the reallocation of some land, labor and capital from low-productivity industries into more productive employment, that is, industries in which the country has a comparative advantage. Some producers may lose, but the gains of others will more than balance the losses and, again, there is a net gain to the country as a whole.

Economies of scale: Free trade enlarges the market in which each country's industries can compete. Increases in the scale of operations often bring them the opportunity to gain from the cost reductions implicit in horizontal specialization as well as in increased vertical specialization.

Gains from competition: Enlargement of the market by trade liberalization heightens competition between foreign and domestic firms in the domestic market. It forces firms to abandon complacent attitudes of "live and let live," and to adopt efficient production technology and stimulate a search for technologically superior processes.

Price stability: Lower prices will have a one-time beneficial effect on wholesale and consumer indexes. As efforts to control inflation have frequently been made more difficult by the price and wage behavior of uncompetitive business and labor groups, lower import prices also contribute indirectly to easing the inflation spiral.

Innovation gains: Under liberal trade arrangements, the growth of an economy benefits almost as much from innovations made abroad as from those developed at home. An obvious corollary is that a conscious effort is made to improve the rate of economic growth.

Overall general gains: In the short term, protectionist micro-intervention can produce some visible results. In the longer term, and as intervention spreads over wider areas of the economy, help for one section will more often than not be a charge on the rest: The whole economy will become weaker, less productive, more inflation-prone, less able to strengthen and renew itself, and less enterprising and innovative.

According to theory, the danger is that there are good reasons to expect trade restraints to multiply. Strong compulsion, economic as well as political, is at work. Everybody resents privileges, and industries demand equal treatment from their own governments. With each grant of protection, it becomes more difficult for a government to refuse to give a new claimant what others have obtained in the past.

If the *shipbuilding* industry of EEC had been exposed to the full impact of market forces over the past several years, little would remain of it. It has survived only by large-scale financial protection through subsidies and other cash aids ($700 to $800 million annually), together with a system of preferential public purchasing and a virtual partitioning of national markets—often incompatible with the principles of EEC. The industry also attempted to protect itself from Japanese competition through a market-sharing cartel arrangement with Japanese shipbuilders.

Telecommunications are state monopolies in EEC countries. The Commission wants member governments to open their telecommunication-equipment market to firms from other member states, but is keen to maintain discrimination against non-EEC-based firms. The Commission does not apply GATT rules by opening up public procurement to international tenders for telecommunication equipment, nor does it appear ready to change this situation.

EEC industrial policy is protectionist in *high technology* sectors as shown in some EEC documents. For example, "Recommendations on Telecommunications" (September, 1980) suggests Community financial support for public purchases from specially created groupings of EEC companies in high-technology projects. In "A Policy for Industrial Innovation—Strategic Lines of Community Approach" (October, 1981), it is suggested that "the Community must create through all its policies a European industrial dimension with bias in favour of European companies."

The European Strategic Programme of Research in Information Technology (ESPRIT), created in the Summer of 1982, was backed by the EEC with $50 million. The participants were a dozen leading electronics groups in a research and development program designed to give Europe a machine tool industry for semiconductor chips, which are now imported from the United States and Japan.

Because of the steep increase in market shares of Japanese products, especially cars and entertainment electronics, many discussions about adopting a common European Community attitude toward Japan have been held. Still, the EEC as a whole has done relatively little to limit Japanese imports. It acted only in steel, and by introducing a market-sharing shipbuilding cartel. Nevertheless, of the 89 import quotas in force in the EEC, 57 discriminate directly against Japan.

In February, 1983, Japan announced it had reached an understanding with the EEC Commission:

Total Japanese exports of VTR's, including chassis kits, would not exceed 4.55 million units in 1983, and will be exported in moderate quantities for three years. An export floor-price system was introduced. Exports of color TV

Managed Trade—The Reality

In the second half of the 1970's, many circumstances forced (or at least induced) governments to depart from free-trade principles. This created strong motives for protectionism in spite of the theoretical argument that trade restraint is harmful in the long term. In the early 1980's, most of these motives converged, reinforcing the call for protectionism.

• *Difficulties in Structural Adjustment*—In most countries, some domestic producers in some industries are no longer in a position to compete on equal terms with foreign suppliers because much of the capital stock and equipment of domestic industries is outmoded and inefficient. Although their problems are sometimes traceable to past inefficient management, these producers hope to achieve "breathing space" to facilitate restructuring by phasing out old equipment and reinvesting in new. Similarly, excessive capacity in many countries (e.g., the steel industry) has increased the difficulty of selling all they produce. Because of the difficulties and costs of adjustment, many important industries seek to solve their problems by asking for protection.

• *Differences in Wages and Degree of Economic Development*—A high standard of living of the working population of an importing country is threatened by the "unfair" competition of workers in other countries, who are willing to work for a much lower wage. A major factor creating this differential, particularly among more developed nations, has been a new social attitude toward the whole income-determination process—divorcing it more and more from productivity considerations and tying it even more closely to the bargaining power of individual sectors of the economy. The result: Indexation, closed shops, and, in some instances, monopolies of nationalized industries.

• *Abrupt Rise in Market Shares*—New centers of higher competitiveness (such as the newly industralizing countries and, among industrialized countries, Japan) have emerged. When the export drive of such a country concentrates on a few items, it becomes possible for it to increase meteorically its market share of some products in importing countries. In the importing country, it become extremely difficult for the corresponding industries to adjust in a short time.

• *Unfair Competition*—Such practices as dumping can, of course, be disruptive for the industries concerned in importing countries. State subsidies have made it possible for the subsidized industries to export more cheaply.

• *Balance-of-Payments Problems and Exchange-Rate Movements*—A large overall payments deficit caused by an uneven timing of recession or by unavoidable developments in the terms of trade (i.e., a rise in prices for raw materials, especially oil), can lure governments to compensate by reducing other imports. A related issue is the possibility of manipulation of exchange rates. A lower price for the exporting country's currency (e.g., a lower dollar in 1978-1980) would make all exported goods cheaper. There is a widespread view that the switch from fixed to floating exchange rates for the major currencies has produced changes in the competitiveness of domestic goods vis-a-vis foreign goods.

• *National Security and Nationalism*—Countries are loath to see domestic industries critical to their nation's defense savaged by lower-cost imports. Defense-related industries are vulnerable when confronted with heavy international competition.

Similarly, countries take pride in their historically preeminent identification with certain products (French wines, Swiss watches, etc.). They refuse to see their national identity lost through free trade.

Such pressures are not all new. As early as 1910, Philip H. Wicksteed, speaking for the British Labor Movement, characterizing the most probable attitude of people toward the work of others, said: "The more abundant supply of any desired thing, however wholesome the need which it meets, and however great the gain to the well-being of society in general which it secures, may plunge some members of the social organism into penury. Thus, every man who lives by supplying a want, dreads anything which tends. . .to supply it more easily and abundantly. It is to his interest that scarcity should reign in the very thing which it is his function to make abundant, and that abundances should reign everywhere else. The desire for relative scarcity of his own skill, or his own commodity, is therefore only too natural and intelligible in any man."

In January, 1982, at the European Management Forum, Emile van Lennep, Secretary-General of the OECD expressed the dilemma more pragmatically:

"But even the most ardent supporter of free trade must recognise that if the basic macro-economic conditions are wrong—that is, if price signals are distorted by high and uncertain rates of inflation, if slow growth provides insufficient jobs for displaced workers to go to, and if there are wide fluctuations in interest rates and exchange rates—then the benefits and costs of free trade can become very unevenly distributed both between and within countries."

tubes will be moderate in 1983 to 1985. Exports of large tubes will not exceed 900,000 units in 1983. Export floor prices on NC lathes and machining centers were to be extended for 1983 and considerably increased. Passenger car exports were to be moderate in 1983, as were exports of commercial vehicles, forklift trucks, motocycles and quartz watches.

The EEC agreed to withdraw antidumping proceedings initiated by European VTR manufacturers. French customs-clearance procedures for Japanese VTR's were to be normalized.

Unilateral Measures within EEC

EEC policy does not prevent unilateral protectionist actions by member states. More than 400 cases of suspected or outright illegal barriers to trade among member states are under investigation by the Commission at any one time. The rate has risen fourfold since the late 1970's. In the main, these cases concern national regulations fixing technical and quality conditions (so-called commercial regulations), disregard of Community directives on public purchasing policies, aids to industry, and procedures restricting imports. The 10th Report on Competition Policy (February, 1982) by the Economic and Social Committee of the European Community summarized and criticized protectionism within the EEC: "There are many instances of protectionist measures being adopted by Member States' governments to help their own industries, particularly in times of recession and falling employment. . .Even where the European Court had condemned some examples of

discrimination, Member States have taken several years to comply with its ruling, or have ignored it. These distortions have a considerable hindrance effect on intra-community trade and competition."

Examples of individual country practices follow:

BELGIUM: At the request of the Benelux countries, the Japanese have to apply a system of export surveillance on electronic shipments to their market.

DENMARK: This country subsidizes certain public-sector contracts for using Danish material in preference to imported material.

FRANCE: Beginning January 1, 1932, France proposed a two-year plan to reestablish its internal market for certain domestic items, such as wood products, machine tools, and textiles. France is also aiming at "reconquering" the domestic market for leather products and shoes through government aid, and pressure on companies to turn to French suppliers. Manufacturers will be given import licenses in proportion to their export success, while distributors will have to buy a quota of French goods before being allowed to import.

The concept of "reconquest of the internal market," according to a statement by the French Foreign Trade Minister in October, 1981, should not mean protection for weak French firms, but rising competitiveness of French companies to ensure their better performance in home markets. In order to give French firms access to sources of financing, state aid would be channeled to potential "winners," giving them a breathing space to overcome "unnatural" difficulties. The nationalized firms will get additional state aid and preference in state contracts. Subsequently, France announced subsidies to steel, heavy chemicals, and electronics, as well as to such nationalized companies as Renault and Pechiney.

In June, 1981, President Mitterand defined the French attitude as one of defending the legitimate interests of France, its workers, and its exports, especially against Japan: "We cannot allow our trade to be swamped by Japanese competition. . .we cannot expose our automobile industry and other sectors to greater danger just because Japan is expanding its trade. . .we are ready to open a dialogue with Japan at EEC level, or bilaterally so that the interests of one side are not allowed to run counter to the interests of the other."

The "Plan calcul" requires French firms wishing to buy foreign equipment to obtain advance approval from the French Government. This approval is granted only if a domestic firm is unable to provide the product needed. As a result, the market for small and medium-sized computers is reserved for French firms.

During the past few years, France has acted to limit import of yarn from Greece, sweaters and wine from Italy, and fruit and steel from Spain.

On October 20, 1982, the French Government announced measures to limit imports and encourage exports:

— All products sold in France must, in the future bear a label showing origin by country.

— All documents accompanying goods passing through customs must be written in French.

— State-owned companies must establish (before the end of each year) a "balance-of-payments" sheet, showing foreign and domestic partners.

— There is 30 percent tax relief on business expenses incurred in export operations.

Extent of Protectionism

Protected trade is sometimes called "managed trade" or "trade affected by restrictions." Its share in world trade is high, since it includes:

(1) all trade with and among centrally planned economies;
(2) OPEC oil exports;
(3) the bulk of trade in agricultural products;
(4) trade in some primary products;
(5) a significant proportion of trade in steel and steel products;
(6) large flows of trade in manufactured products (e.g., cars, consumer electronics, aircraft, shipbuilding, textiles);
(7) countertrade—some 20 to 30 percent of world trade; and
(8) the intracompany trade of multinationals.

It is difficult to measure the actual extent of protectionism, since all restrictions are not generally known. Even if all the restrictions were known, it would be impossible to measure their effect, as the potential imports which protection keeps out cannot be estimated. Further, an uncertainty spreads over the whole areas of unconstrained trade when restrictions proliferate. This outcome is also not measurable.

There is even some disagreement as to what should be included as "protectionism." For instance, Dutch Prime Minister Luggers declared at the meeting of EEC summit in December, 1982, that negotiated restraint agreements are, in his opinion, totally in harmony with the pledge for universal free trade. As the share of managed trade is difficult to measure, estimates of that share differ widely:

- According to Jan Tumlin of GATT, in mid-1980, 40 to 44 percent of total world trade was subject to protectionist measures.
- The *London Institute of Economic and Social Research* calculated the percentages of imports subject to non-tariff restrictions for 1980 at 45 percent for the EEC, 46 percent for the United States and 59 percent for Japan. According to the study, in the EEC this percentage was nearly zero in 1975.
- *The Economist* ("Is Free Trade Dead?" December 25, 1982) estimated that "a quarter of all trade in goods is conducted by barter today. Another quarter involves the internal transactions of multinational companies. A third quarter is subject to quotas or other agreements or export restraint. Thus, the final quarter of world trade is having to do all the jobs that markets are there for—providing a clearing house where surplus production can meet unsatisfied demand."
- *Mrs. Sheila Page* of the National Institute of Economic and Social Research (NIESR) in London, calculated that in 1979 about 46 percent of world trade was protected. In 1974, this share was only about 40 percent. The share of managed trade in manufactures rose from 13 percent in 1974 to 21 percent in 1979. In that period it rose to 38 percent in textiles to 48 percent in clothing, and to more than 80 percent in aircraft and shipbuilding.

GERMANY: An annual growth rate of 10 percent for Japanese car imports was imposed in the form of voluntary limitation.

GREECE: Practically all foreign trade is managed. In 1982, Greece instituted nontariff barriers on footwear. There are also subsidies of up to 25 percent on various exports.

IRELAND: Before Ireland entered the EEC, it banned imports of poultry and eggs. These measures have not been removed, in spite of pressure from the Commission. "Buy home products" campaigns also exist.

ITALY: The government's subsidies to petrochemical projects in Southern Italy require that semiconductor devices be purchased from Italian suppliers even if the foreign supplier can offer higher quality.

Italy applied import quotas at the beginning of 1980 against U.S. polyester yarn, staple and fibers. That same year, an Italian court ordered two U.S. companies to cease shipment of fibers whose price did not include an upward adjustment to cover the price difference of the raw materials between the United States and other producers.

NETHERLANDS: The Netherlands has imposed a voluntary limitation on Japanese car imports so that the 1981 level should not exceed the level of 1980. The government has instructed the national police to buy only Dutch-built Volvo cars.

UNITED KINGDOM: The British motor industry has an agreement with Japan that Japanese exports of cars should not surpass traditional levels. A similar arrangement exists for imports of Japanese consumer electronics.

A 1981 change in United Kingdom health regulations, which banned imports of French and other turkeys and poultry, was aimed at protecting the British poultry industry and sheltering it from pressures to modernize and increase efficiency. A new factory in France, built with French Government and EEC regional development subsidies, can supply the entire British market. There were also restrictions on imports of poultry and eggs from countries that vaccinate their birds against fowl pest. The government also earmarked up to £14 million for a "Food from Britain" campaign.

At the beginning of 1980, with the consent of the EEC Commission, the United Kingdom established quotas on imports of manmade yarn from the United States, such as polyester yarn; and, without the Commission's agreement, imposed quotas on imports of nylon and tuft-nylon carpets. (There is also protection on footwear.)

The United Kingdom gives subsidies, worth 37 percent of contract prices, to state-owned British shipbuilding companies.

European Free Trade Association

The seven (Austria, Finland, Iceland, Portugal, Norway, Sweden and Switzerland) members of the European Free Trade Association (EFTA) represent a free-trade area in which industrial products can be exchanged, free of duties and quantitative restrictions. Together with the EEC, after a 1972 agreement, this represented a free market with more than 300 million inhabitants, comprising 17 countries and accounting for more than 40 percent of total world trade.

However, some protective measures exist. EFTA's application of the Davignon plan places limits on steel imports, in order to protect home industries. EFTA states also apply a system of ceilings, similar to that of the EEC, on paper imports. Governments have granted aid to papermakers in Sweden and, to a lesser degree, Norway.

Some unilateral measures protecting trade have also been introduced.

AUSTRIA controls imports of some food products, tobacco products, clothing and aircraft.

FINLAND extended the minimum import price on ladies' hosiery for 1981.

ICELAND, in order to protect domestic industry, introduced (in September, 1980) a temporary special charge of 40 percent on confectionary sugar and chocolate, and 32 percent on pastry, biscuits, cakes and other bakery products. New deposits on imports were also established. There are controls on tobacco.

NORWAY controls imports of vehicles and radio equipment, textiles and clothing, telecommunications apparatus, aircraft and ships.

SWEDEN controls imports of textiles, clothing, footwear and aircraft. Shipyards took advantage of $2.2 billion in subsidies between 1976 and 1980. They will get another $0.8 billion by 1985.

SWITZERLAND controls imports of textiles, clothing and aircraft.

A Note on Costs

Attempting to assess who gains and who loses, the OECD projected per capita GDP in 1990 for various countries and regions under free trade and under increased protectionism:

- Under protectionism, the losers would be the more highly developed countries of North America, Japan and the EEC.
- Under free trade, the losers would be Australia, New Zealand and the non-EEC countries of Western Europe.
- Only the developing countries come out even.

Source: OECD, *Interfutures*, Paris, 1979.

Other Multilateral Approaches

There are multilateral agreements on commodities using quotas and thus influencing prices, e.g., the *International Sugar Agreement* and some others.

In the framework of GATT, in 1961, an agreement was

concluded on cotton textiles, later changed into a *Multifiber Agreement* (MFA). In 1981, its prolongation until 1986 was negotiated. This agreement chiefly concerns trade between developed and developing countries. It is the de facto acknowledgment that normal GATT rules cannot apply to world trade in textile products. It serves as the framework for bilateral arrangements between governments on quantitive limits of trade. Fifty-one countries participate in the MFA.

The Association of West European *shipbuilders* (AWES) concluded an arrangement in 1976, in the framework of the OECD, for an orderly reduction of shipbuilding capacity.

Under pressure, particularly from French groups, *machine tool* makers from EEC countries, Norway, Sweden, Spain, Austria and Switzerland called for limits on imports from Japan in late 1980. The Japanese Machine Exporters Association responded, under instruction of the Japanese government, by extending an export agreement with the United States and Canada, existing since 1978, to cover also the European countries. The cartel covers minimum prices, but not quantitative limitations.

Many Faces of Protectionism: A Glossary

For centuries, tariffs were the primary form of protectionism. Since World War II, protectionism has taken on new, less easily measured, forms. Although these nontariff barriers to trade have been attacked, their importance is growing. These practices include both public and private attempts to restrain trade. Because they are sometimes difficult to identify, it is not possible to estimate their impact. Although new restraints continue to be invented and estimates of known ones run into the hundreds, the partial list that follows identifies those most often discussed.

CONSTRAINTS ON IMPORTS

Specific Limitations

Embargoes: prohibition of imports of specific products from specific countries.

Import licenses: required for specific products and must be granted before trading. Sometimes approval is granted only if product is not made domestically.

Minimum import price (or "trigger price"): imports restricted if exporter does not observe minimum price (i.e., antidumping duties) or if the price does not equal or surpass that in the domestic market.

Organized free trade: an extension of organized market trade. Involves a market-sharing arrangement that is limited to specific amounts of sensitive, highly competitive goods.

Orderly marketing agreements: voluntary export restraints (see below) with explicit and formal government intervention. Agreements are negotiated between exporting and importing countries.

Proportional restrictions of foreign to domestic goods: definition of the quantity of imports of certain products as a proportion of total domestic output of the same products. May require use of a minimum proportion of domestic content in specific imports.

Quotas: direct, absolute and visible limitations on quantity or value of specific products imported from a country or group of countries during a specified time period.

Voluntary export restraints: similar to quotas but not involving formal restrictions. Arrangements (varying from informal to formal) for an exporting country (often under pressure from an importing country) to limit its traded product(s).

Customs Procedures

Customs and administrative entry procedures can become formidable barriers if used with the intention to make the entry of foreign goods more difficult by increasing exporters' costs.

Border tax adjustments: imposition of some or all of the tax levied by the importing country on similar domestic products. Some exporting countries may remove such taxes from products destined for export.

Documentation requirements and entry fees.

Import deposits: required by governments from domestic importers prior to the importing of goods. A specified proportion of the value of the import (as high as 100 percent) must be put in a noninterest-bearing account. Often used by countries experiencing balance-of-payments difficulties.

Reduction of customs clearance facilities: variations in the number of customs offices permitted to clear specific categories of goods, or location away from normal trade entries.

Valuation of imports: may be left to arbitrary discretion of customs officials, as against published tariffs.

Standards

Health, safety and quality standards, if not sufficiently clear, or if interpreted arbitrarily, can discourage trade. Efforts to create European standards had led to only 130 harmonization directives by the end of 1982—and those related to goods that could be harmonized easily.

Government Trading

Direct participation by governments in trade favors domestic producers through procurement policies that favor domestic goods without respect to price and quality. In some nonmarket economies, exports are financed by state agencies. (This is done by market economies in exceptional cases.)

Countertrade

Arrangements whereby exporters agree to purchase equivalent values of goods from t.e buyers.

Intracompany Trade by Multinationals

An additional barrier to conventional market mechanisms that is estimated to amount to about one-fifth of the manufactured exports of the industrialized countries.